



**Responses to Inquiries
RFP 14-03
Small Cap Equity Management Services**

1. Is there any exception to the \$500M in AUM?

Answer: No.

2. Is the RFP search for a mutual fund or a separately managed account?

Answer: This search is for a separately managed account.

3. Section 3, #4 states that INPRS would prefer a turnover ratio that is less than 50% annually. Is there any flexibility in this requirement?

Answer: There is some flexibility. However, if the turnover ratio is higher than 50%, please clearly state that in the RFP response and explain why the turnover ratio is high and why it is beneficial to the portfolio.

4. Section 3, #5 states that INPRS would prefer an active share that is higher than 75%. Again, is there any flexibility in this requirement?

Answer: There is some flexibility. However, if the active share is lower than 75%, please clearly state that in the RFP response and explain why the active share is low and why it is beneficial to the portfolio.

5. Section 3, #6 states that INPRS would prefer a concentrated portfolio. Would a portfolio of 200-400 names with a 60% allocation to top 100 names be considered concentrated for the purposes of this search?

Answer: It will not be considered concentrated.

6. Does INPRS currently have a current allocation to Domestic Small Cap Equity? If so, who is/are the current manager(s) responsible for this allocation?

Answer: INPRS currently has an allocation to Domestic Small Cap Equity managed by TimesSquare Capital Management and Columbus Circle Investors as well as Domestic Micro Cap Equity managed by DePrince, Race, and Zollo.

7. Would you consider a Small to Mid-cap Growth strategy for this mandate? Initial stock purchases within our strategy are purely small cap stocks, however we will often allow our winners to run into midcap before being sold. As a result, our weighted average market cap is currently \$3.2 billion with a median market cap of \$2.8 billion.

Answer: Yes, INPRS will consider the strategy. However, INPRS is not searching for a SMID strategy.

8. Regarding the expectation that the strategy outperforms the benchmark at least 150 bps annually, net of fees over a market cycle, and has a higher Sharpe ratio than the benchmark, can you clarify what time period INPRS considers a market cycle and whether strategies that do not meet both expectations would be considered?

Answer: Based on the INPRS Investment Policy Statement language related to the watch list, a market cycle is typically 3 to 5 years. INPRS will consider the quantitative and qualitative factors of a strategy.

9. Regarding the preference for a turnover ratio of less than 50% annually over the last three years, can you clarify whether INPRS is referring to name or transaction based turnover and whether strategies with higher than 50% turnover would be considered?

Answer: It is referring to transaction based turnover. Higher turnover strategies will be considered. However, if the turnover ratio is higher than 50%, please clearly state that in the RFP response and explain why the turnover ratio is high and why it is beneficial to the portfolio.

10. Will you consider a small cap strategy that has \$350MM in assets as of 12/31/13, but has been awarded additional mandates that will bring the assets to \$500MM or more by 6/30/14?

Answer: If documents are provided that confirm the funding commitment, INPRS will consider the strategy.

11. Can we include small cap assets managed at the firm in an All Cap strategy to meet the \$500MM AUM requirement?

Answer: No.

12. We would like to clarify that a response of "not applicable" in response to criteria 4, 5 and 6 will not result in automatic disqualification of our response to the RFI. The strategy our firm would like to propose has been in existence since the mid 1980's and obtains equity market exposure via index futures and swaps (thus, the criteria regarding stock turnover, active share, and concentration are not applicable to our strategy). The proposed strategy is rated five stars by Morningstar and has generated a since inception annualized excess return of 5.4% over the Russell 2000 index (inception = 3/2006). The Fund is ranked in the top 1% of the Morningstar Small Cap equity universe and we believe the strategy offers a compelling value proposition to clients seeking to optimize small cap performance, without the capacity constraints commonly associated with traditional small cap management.

Answer: For this search, INPRS will not consider a strategy that uses index futures and swaps to obtain a majority of the small-cap or micro-cap equity exposure.

13. Are the insurance requirements as outlined negotiable?

Answer: Yes, the insurance requirements are negotiable and are intended to be consistent with coverage for similar mandates and assets in the institutional investment market.

14. Do you have a definition of "Comparable Investor" as mentioned in Appendix A.2 Exhibit B or will that be agreed up between the selected manager and INPRS at the time of fee negotiation?

Answer: The definition of "Comparable Investor" is dependent upon the circumstances. Generally, the factors considered may include: (i) value of assets managed in this Small Cap mandate; (ii) overall assets being managed by manager for INPRS, (iii) similarities in mandate requirements, (iv) duration of the investment management relationship. The clause is intended to ensure the fees paid by INPRS are not higher than fees for any other client when considering the totality of the relationship with the manager. "Comparable Investor" is not intended to include affiliates of the manager.

15. Can you confirm that submission requires the following: one email submission, one hard copy and one electronic copy on a CD marked "original"?

Answer: All proposals must be emailed no later than February 18, 2014 at 3:00 PM EST to procurements@inprs.in.gov. Each Respondent must also submit one hard copy and one electronic copy (preferably PDF) of the Respondent's proposal on CD.

16. Can you confirm that all data should be as of 9/30/13 (as opposed to year-end)?

Answer: That's correct. Please provide 9/30/2013 data. Additional data as of 12/31/2013 may be provided but is not required.

17. We have a US Small/Mid Cap Growth strategy that inceptioned in July 2005 and is benchmarked against the Russell 2500 Growth Benchmark. This team has experience managing a Mid Cap Growth strategy since 1999 and several Large Cap Strategies, including one that inceptioned in 1984. Would Indiana PRS consider our US Small/Mid Cap Growth strategy?

Answer: INPRS will not consider SMID Strategy for this search.

18. Appendix B 1-3 of the original document: Are these required as part of the submission? They aren't noted in the 'Proposal Content Requirements' section

Answer: Appendix B includes mandatory forms to be including by any respondent.

19. Exhibits A-F of the original document: Are these required as part of the submission? They aren't noted in the 'Proposal Content Requirements' section

Answer: Exhibits A-F of the original document are required to be completed with each proposal.

20. Regarding Appendix B (pages 44-48 in the request for proposal document), would you like prospective bidders to submit a complete Appendix B with the initial submission or should we expect to complete and submit this if we are selected as a finalist in the process?

Answer: Appendix B requests respondents to complete Indiana Economic Impact Statement and Taxpayer Identification Number Request. We request such forms be completed with the initial response. If certain information requested in Appendix B is unknown at this time, Respondents may leave such response blank or add a notation that it will be updated before contract negotiations.

21. Can you please help to clarify/further define the time period of “over a market cycle” as it relates to Section #3 - Scope of Services, objective #1: Utilize an active management strategy that seeks to achieve higher risk-adjusted returns, net of fees, than the benchmark. The expectation is the strategy outperforms the benchmark at least 150 bps annually, net of fees over a market cycle, and has a higher Sharpe ratio than the benchmark?

Answer: Based on the INPRS Investment Policy Statement language related to the watch list, a market cycle is typically 3 to 5 years.

22. Our annual name turnover the last three years is 49%, but our dollar turnover is above 80%. Would INPRS consider our approach?

Answer: INPRS will consider this approach. However, if the turnover ratio is higher than 50%, please clearly state that in the RFP response and explain why the turnover ratio is high and why it is beneficial to the portfolio.

23. Our small cap core portfolio holds 242 names as of 12/31, and our holdings have historically been north of 200 names. Would INPRS consider our approach for this mandate?

Answer: INPRS will consider this approach. However, if the holdings are more than 100, please clearly state the number of holdings in the RFP response and explain why the number of holdings is high and why it is beneficial to the portfolio.

24. Is it a requirement that a firm have audited financials?

Answer: INPRS requires audited financial statements be provided. INPRS is investing \$100Ms of Indiana public pension funds with the winning respondent and expects a third party's assessment on the truth and fairness of the financial statements. INPRS views audited financial statements as an integral part of the due diligence process to confirm the entity's financial position and internal control systems.

25. Is it a requirement that financials be disclosed? While we would entertain an onsite visit to review financials if a finalist, it's our firm policy not to disclosure financials. We can confirm that our firm has sufficient capital to run the business.

Answer: INPRS requires audited financial statements be provided as part of our due diligence process. If the Respondent fails to provide audited financial statements with its initial response, the Respondent may still be considered, but will be required to submit before it could proceed to the Finalist Stage. If confidentiality is a concern, we request

you submit such information in accordance with the instructions in Section 1.9 of the RFP.

26. Can you please confirm which (if any) of the following documents need to be completed, signed and submitted along with the RFP on February 18?
- a. *A.1 – Essential Clauses*
 - b. *B.1 – Indiana Economic Impact Statement*
 - c. *B.2 – Taxpayer Identification Number Request*
 - d. *B.3 – Application for Certificate of Authority of a Foreign Corporation*
 - e. *Exhibit F – Placement Agent Disclosure Letter*

Answer:

- a. A.1 – Essential Clauses – we request respondents acknowledge these terms as being non-negotiable for contract purposes.
- b. B.1 – Indiana Economic Impact Statement- mandatory components of a complete proposal
- c. B.2 – Taxpayer Identification Number Request- mandatory components of a complete proposal
- d. B.3 – Application for Certificate of Authority of a Foreign Corporation- mandatory components of a complete proposal
- e. Exhibit F – Placement Agent Disclosure Letter – this will be expected to be completed before contract negotiations.

27. The RFP states that the firm must “have a verifiable ten-year performance track record for the Small Cap Strategy or other domestic strategies managed by the same team.” Is this an absolute requirement or a preference? We have a nearly 8-year record in our small cap strategy, as well as 15 years prior experience managing portfolios at a predecessor firm.

Answer: This is a requirement. The track record at a predecessor firm will not be considered.